MdTA RESPONSE TO DLS ANALYSIS

DLS Budget Analysis

1. Security and Law Enforcement on the John F. Kennedy (JFK) Memorial Highway (page 16)

The Department of Legislative Services (DLS) recommends that the MdTA and MSP comment on the public safety, financial, and jurisdictional implications of the transfer of law enforcement responsibilities from MSP to the MdTA Police. DLS also recommends the adoption of committee narrative expressing the committees' intent that responsibility for law enforcement for JFK Memorial Highway be transferred from MSP to MdTA Police. MdTA and MSP should also provide a report outlining a transition plan to be submitted to the committees prior to November 1, 2006.

MdTA Response:

A letter was submitted to the Senate Budget and Taxation Committee and the House Appropriations Committee on November 18, 2005 in response to the JCR Request of the 2005 Session on page 88. The letter provided an overview of the current JFK Highway enforcement by the MSP and the developments that led to the current agreement between MSP and MdTA.

The existing agreement provides that the MSP shall provide law enforcement services on the JFK Highway and will annually submit an itemized budget to the Authority for approval. The approved operating budget for FY 2006 is $5,119,729. If the Authority were to assume these responsibilities, it would need an additional thirty-six police officers and eight civilian support positions. The MdTA Police would consolidate Kennedy Highway operations with those currently being performed by an MdTAP detachment assigned to the nearby Hatem Bridge and total costs are estimated to be in the $5 million range.

It is unclear if there would be an overall cost savings to the State because of the uncertainty of the impact on the State General Fund for MSP services versus the use of Authority funds for the MdTA Police. Moreover, the Authority must have the time to thoroughly consider how best to allocate resources for the provision of law enforcement services for its various operations, particularly given the upcoming responsibility for the its newest toll facility, the Intercounty Connector.

The Authority requires additional time to continue to evaluate any potential transfer of law enforcement responsibility for the Kennedy Highway in conjunction with the State Police and the Department of Budget and Management.

2. Task Force on Traffic Capacity Across the Chesapeake Bay (page 18)

DLS recommends that MdTA comment on travel demand now and in the future, possible environmental impacts of a new crossing, the benefits and drawbacks of a possible crossing in each of the four zones, the public sentiment expressed at the task force meetings and what the timeline looks like from this point. Furthermore, MdTA should also comment on the cost implications of a possible crossing and how it long it would take to build if the "build" option is chosen.

MdTA Response:

There has been a significant amount of data and preliminary analysis prepared to date regarding the existing Bay Bridge and issues associated with a new Bay Crossing. To provide a thorough overview, the Authority is providing several documents for Committee review. These documents include the following:

The December 2004 Transportation Needs Report – this report outlined the congestion, safety and maintenance needs of the current bridge.

The Briefing Book for the Task Force on Traffic Capacity Across the Chesapeake Bay - this is a summary of all material presented during the Task Force Meetings.

The Summary on Public Information Meetings – this outlined the material presented during the five public information meetings.

A one-page summary on the Task Force timeline and members.

3. Large Increases in Anticipated Future Capital Spending (page 20)

DLS recommends that MdTA comment on the changes in its forecast, the current economic outlook, anticipated future capital expenditures, and the MdTA's ability to manage the large amounts of debt for capital expected in the near future.

MdTA Response:

The change in the Authority's financial forecast between December and February is primarily reflective of lower expenditure requirements for the Intercounty Connector project for the FY 2006 – FY 2011 forecast period. Although the Authority has had to lower its toll revenue projections for the seven existing toll facilities from a year ago because of lower projected traffic growth, reduced ICC cash flow needs coupled with some utilization of capitalized interest bonds has reduced the magnitude of debt service payment requirements from toll revenues during the period. As a result the Authority will continue to meet to its legal financial standards as well as its higher financial policy guidelines.

The Authority has approved a significant capital program for the fiscal years 2006 through 2011. The new Intercounty Connector project, a planned East-West multi-modal highway in Montgomery and Prince George's counties between I-270 and I-95/US1, accounts for nearly 56% of the $3.9 billion program. Extensive capital needs are being addressed at the other Authority toll facilities, including significant improvements to the Kennedy Highway that account for almost 21% of the total capital program. The capital program needs that have been identified in the CTP are funded through a balanced financing plan of Authority revenue bonds (45.4%), Authority Pay-Go Cash (23.5%), GARVEE bonds (19.6%), and MDOT/General Fund/Special Federal Funds (11.5%).

Although there is a large projected increase in debt, careful financial planning continues to allow the Authority to accommodate an expanding capital program within the financial capacity of the Authority. The borrowing that is planned to support the capital program is to be accomplished while maintaining high financial standards and adequate cash reserves. As the first consideration, the Authority's financial plans are framed to comply with its Trust Agreement covenants, which were designed to maintain prudent fiscal standards. In addition, in Fiscal Year 2006 the Authority implemented a reorganization of its divisions to more effectively manage its capital planning and engineering programs.

According to the Authority's Financial Advisor, the expectation of the bond rating agencies is that debt service coverage (the ratio of net revenues after operating expenses to annual debt service costs) for toll agencies should be at least 2.0. It should be noted that the Authority holds itself to this higher financial standard even though legal Trust Agreement requirements only obligate the Authority to adhere to a debt service coverage ratio of 1.2. Over the six-year program period, the Authority uses this ratio as a standard and debt service coverage remains well above 2.0 for the next four years and by 2010-2011 is coming closer to 2.0. This was accomplished by a combination of factors:

1. Revised cash flows from SHA shifted spending on the ICC to future years; 2. The timing of toll revenue bond sales shifted and the amount of debt to be issued decreased during the forecast period; and 3. Capitalized interest bonds were used to decrease a portion of the interest which would be paid from forecast period revenues, in order to improve the Authority's cash position (Capitalized interest refers to a portion of the proceeds of a bond issue that is set aside to pay interest on the securities for a specified period of time). Interest is commonly capitalized for the construction period of a revenue-producing project so that debt service expense does not begin until the project is expected to be operational and producing revenues.

The current financial plan is conservative in its overall revenue growth assumptions based on a recent traffic and revenue study performed by the Authority's senior traffic consultant. The Authority will closely monitor projected cash flows and the level of debt that can be prudently issued to maintain a balanced funding plan for the capital program. The Authority will also evaluate the use of other innovative financing alternatives i.e. TIFIA to borrow funds at the most cost effective rates and repayment terms.

It should be noted that when the Transportation Authority issued $160 million in revenue bonds in June 2004 to support the capital program, the bond rating agencies reviewed the Authority financial forecast at that time as part of their rating analysis. The agencies recognized the significant capital program that the Authority was facing, but at the same time also recognized the careful financial planning the Authority was undertaking to accomplish the program. The result was that two bond rating agencies upgraded the Authority to the AA category, while a third maintained the Authority's A+ rating. So while debt levels will be increasing in the future, this financial factor cannot be looked at in isolation. The financial health of the Transportation Authority has been sound over the years, and will continue to be so in the years ahead even with significantly increasing capital costs. This is because operating and capital program expenditure requirements continue to be carefully projected and the revenue base and the financing to support these requirements will continue to be carefully planned as well. The Authority will be briefing the rating agencies again in the near future on its financial planning and projected bond sales and anticipates reaffirmation of its strong bond ratings.

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Operating Budget Recommended Actions

1. Adopt the following narrative:

   Police Powers on I-95: The Maryland State Police (MSP) have historically provided law enforcement services on the John F. Kennedy Memorial Highway (JFK Highway). However, since this agreement was originally put into place, the Maryland Transportation Authority (MdTA) has developed its own police force which includes 430 sworn officers. The MdTA Police have law enforcement responsibilities at six of the MdTA's toll facilities, as well as at the Baltimore/Washington International Thurgood Marshall Airport and at the Port of Baltimore. Due to cost savings that could be realized, it is the intent of the committees that MdTA should immediately notify MSP of its intent to terminate the Memorandum of Understanding (MOU) between them in regard to law enforcement. MSP and MdTA should provide a report outlining a transition plan to be submitted to the committees prior to November 1, 2006. Once the required two years of transition time has passed in accordance with the MOU, it is the intent of the committees that the MdTA Police should be responsible for law enforcement on the JFK Highway.

MdTA Response:

The Maryland Transportation Authority supports continuing evaluation of the law enforcement responsibility for the Kennedy Highway in conjunction with the Maryland State Police but respectfully does not concur with an immediate notification of an intent to terminate the Memorandum of Understanding.